

ANALYSIS OF ORIGINAL BILL

Author: Vasconcellos Analyst: Kristina North Bill Number: SB 1953

Related Bills: See Legislative History Telephone: 845-6978 Introduced Date: 02/19/98

Attorney: Doug Bramhall Sponsor:

SUBJECT: Repeal Campaign Contribution Limitation/Establish State Candidate Election Fund

SUMMARY

Under the Administration of Income and Franchise Law (AFITL), this bill would establish the State Candidate Election Fund ("election fund").

This bill also would repeal the provisions of the Political Reform Act of 1974. This provision does not impact the Franchise Tax Board (FTB) and will not be addressed in this analysis.

EFFECTIVE DATE

This bill would become effective January 1, 1999, and apply to taxable years beginning in 2000, for returns filed in 2001 and thereafter.

LEGISLATIVE HISTORY

AB 2871 (1995/96), SB 588 (1994/Vetoed)

BACKGROUND

The California Election Campaign Fund (the first voluntary contribution fund) was enacted in 1982 and was first available for contributions on the 1982 tax return filed in 1983. The fund sunset and was repealed on January 1, 1997, and last appeared on the 1996 tax return. This fund received approximately \$95,532 from contributions on 1996 tax returns.

SPECIFIC FINDINGS

Current federal law provides a true checkoff to direct \$3 (\$6 for married individuals filing jointly) of a taxpayer's actual tax liability to the Presidential Election Campaign Fund. Designation of the \$3 does not affect a taxpayer's tax liability or refund amount.

DEPARTMENTS THAT MAY BE AFFECTED:

___ STATE MANDATE

___ GOVERNOR'S APPOINTMENT

Board Position:

___ S ___ O
___ SA ___ OUA
___ N ___ NP
___ NA ___ NAR
___ PENDING

Agency Secretary Position:

___ S ___ O
___ SA ___ OUA
___ N ___ NP
___ NA ___ NAR
DEFER TO ___

GOVERNOR'S OFFICE USE

Position Approved ___
Position Disapproved ___
Position Noted ___

Department Director Date
Gerald H. Goldberg 3/20/98

Agency Secretary Date

By: Date

Current state law does not allow taxpayers to direct actual tax liability to any fund. **Current state law** allows taxpayers to make contributions of their own funds, not tax liability, to 10 voluntary contribution funds on the 1997 tax return filed in 1998.

This bill would establish the election fund, to be administered by the Controller, allowing individual taxpayers to designate \$5 (\$5 each for married individuals filing jointly) of tax liability to the fund. The election fund would provide public funding to certain political party nominees who are candidates for the Assembly, Senate, Board of Equalization and statewide offices in a general election, as specified.

This bill would require the FTB to revise all original personal income tax forms (which include the 540, 540A, 540EZ, Telefile, 541, 540NR and scannable forms) for the 2000 tax year and thereafter to include the election fund designation. Specifically, this bill would require that, on the first page, immediately preceding the filing status, language be included to allow each individual taxpayer to designate \$5 of tax liability to the election fund. This bill also would require that tax returns specify that the designation would not increase a taxpayer's tax liability or reduce a refund.

This bill would require the FTB, on or before July 1 of each year, to certify to the Controller the amount which had been designated by April 15 of that year. The certified amount would be appropriated by the General Fund to the election fund. Amounts designated on returns filed after April 15 would be certified the following year.

This bill would compensate the Controller and the FTB from election fund for reasonable administrative expense connected with the fund's operation.

This bill provides the California tax liability is the taxpayer's total income tax liability that taxable year.

Implementation Considerations

The department has identified the following implementation concerns. Department staff is available to work with the author's office to resolve these and any other concerns that may be identified.

- ◆ This bill provides that the California tax liability is the taxpayer's "total" income tax liability for that taxable year. This provision is not defined and implies that there may be a "partial" tax liability. Because "tax liability" is defined in the Revenue and Taxation Code, the author may wish to delete the term "total."
- ◆ This bill specifies that the election fund designation be placed on the first page on all original returns immediately preceding the filing status. That would require three additional lines be added to all individual tax returns and additional instructional text. This requirement, coupled with the return of the renter's credit, could create significant implementation problems. Programming and testing would be required to accommodate the new designation.

- ◆ This bill requires that the FTB annually certify to the Controller on or before July 1 the amount designated by April 15. However, not all of the designations made in a taxable year would be available by July 1. Returns filed by April 15 would not be processed for some weeks, and personal income tax returns may be filed, with an extension, annually until October 15. If the intent is to have the FTB certify the total amount of designations made to this fund in a taxable year, the author may wish to change the certification due date. Otherwise, the checkoff amounts on returns processed after April 15 would be included in the following year's accounting.
- ◆ Including this designation on all original personal income tax returns would be a significant change for all taxpayers. It has been the department's experience that, when a tax law change impacts a significant number of taxpayers, taxpayer contact with the department increases.

FISCAL IMPACT

Departmental Costs

The department's costs to administer this fund would be reimbursed from moneys collected. However, the impact to tax forms, additional programming required and increased taxpayer contact may create additional significant costs in the first year and moderate to minor costs in succeeding years.

Tax Revenue Estimate

Revenue losses under the Personal Income Tax Law are estimated to be as follows:

Effective 2000 Taxable Year (in millions)		
Fiscal Years		
2000/1	2001/2	2002/3
(\$13)	(\$14)	(\$14)

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Tax Revenue Discussion

This estimate is based on federal experience with the Presidential Election Campaign Fund. Pursuant to our latest available data (taxable year 1992), 17% of all taxable federal returns included designations to the Federal Presidential Election Campaign Fund. This percentage has been fairly stable from year to year. It is assumed that the same ratio of California taxpayers would make the State Candidate Election fund designations, i.e., around 850,000 joint filers at \$10 each and 950,000 other filers at \$5 each (year 2000 level).

BOARD POSITION

Pending.